

OPEN MEETING ITEM



0000112581

COMMISSIONERS
KRISTIN K. MAYES – Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

ARIZONA CORPORATION COMMISSION

ORIGINAL

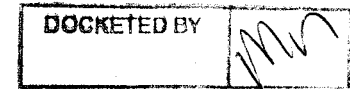
DATE: JUNE 2, 2010
DOCKET NO.: W-01624A-10-0009

Arizona Corporation Commission

DOCKETED

JUN - 2 2010

TO ALL PARTIES:



Enclosed please find the recommendation of Administrative Law Judge Teena Wolfe. The recommendation has been filed in the form of an Order on:

BIG PARK WATER COMPANY, INC.
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JUNE 11, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JUNE 29, 2010 and JUNE 30, 2010

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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1
2 **BEFORE THE ARIZONA CORPORATION COMMISSION**

3 COMMISSIONERS

4 KRISTIN K. MAYES, Chairman
5 GARY PIERCE
6 PAUL NEWMAN
7 SANDRA D. KENNEDY
8 BOB STUMP

9 IN THE MATTER OF THE APPLICATION OF
BIG PARK WATER COMPANY, INC. FOR
AUTHORITY TO INCUR LONG-TERM DEBT
FROM THE ATER INFRASTRUCTURE FINANCE
AUTHORITY OF ARIZONA.

DOCKET NO. W-01624A-10-0009

DECISION NO. _____

ORDER

10 Open Meeting
11 June 29 and 30, 2010
12 Phoenix, Arizona

BY THE COMMISSION:

13 Having considered the entire record herein and being fully advised in the premises, the
14 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

15 * * * * *

16 **FINDINGS OF FACT**

17 1. On January 13, 2010, Big Park Water Company, Inc. ("Big Park" or "Company") filed
18 with the Arizona Corporation Commission ("Commission") an application for authority to incur
19 long-term debt from the Water Infrastructure Finance Authority of Arizona ("WIFA").

20 2. Big Park is a public service corporation, organized as an Arizona for-profit
21 corporation, engaged in providing water utility service to approximately 3,000 water customers in
22 Yavapai County, Arizona, pursuant to a certificate of convenience and necessity granted by the
23 Commission.

24 3. Big Park requests approval to issue secured debt of \$415,000 from WIFA for the
25 purpose of funding arsenic treatment facilities for the Company's two remaining untreated wells
26 (Well Nos. 1 and 5).
27
28

1 4. Big Park stated that the debt is necessary to meet Environmental Protection Agency
2 arsenic standards and to allow the Company to comply with a Notice of Violation from the Arizona
3 Department of Environmental Quality ("ADEQ") concerning arsenic levels at its Well Nos. 1 and 5.

4 5. Big Park stated that its other wells have already been equipped with arsenic
5 remediation facilities, which were funded by equity and through Arsenic Impact Hook-Up Fees
6 previously approved by the Commission.

7 6. Big Park stated that due to slower customer growth in the last two years (an average of
8 4 to 5 customers per year), its Arsenic Impact Hook-Up Fee Tariff will not generate the funds
9 required to construct and install arsenic treatment facilities at Well Nos. 1 and 5.

10 7. According to the application, Big Park anticipates a WIFA financing rate of 4 percent,
11 but not to exceed 7 percent, for a term not to exceed 20 years.

12 8. Big Park stated that in addition to servicing the proposed debt from operating cash
13 flow, it also intends to use future funds collected from its Arsenic Impact Hook-Up Fee Tariff to
14 repay principal and interest on the WIFA loan.

15 9. On January 8, 2010, Big Park's shareholders authorized it to borrow \$415,000 from
16 WIFA.

17 10. On March 8, 2010, Big Park docketed its Notice of Filing Affidavit of Publication,
18 indicating that it published notice of the financing application on March 3, 2010 in the *Sedona Red*
19 *Rock News*, a newspaper of general circulation in Yavapai County.

20 11. No intervention requests were filed.

21 12. On April 30, 2010, the Commission's Utilities Division ("Staff") filed a Staff Report
22 on the application, recommending approval. The Staff Report indicated that any party who wished to
23 file comments to the Staff Report should file them on or before May 14, 2010.

24 13. On May 4, 2010, the Company filed comments on the Staff Report.

25 14. At December 31, 2008, with the inclusion of advances in aid of construction ("AIAC")
26 and contributions in aid of construction ("CIAC") less accumulated amortization of CIAC, the
27 Company's capital structure consisted of 1.2 percent short term debt, 0.0 percent long term debt, 20.8
28 percent equity, 39.6 percent AIAC and 38.5 percent CIAC.

1 15. Staff performed a financial analysis of the effects of the proposed debt on the
2 Company, utilizing historical information for the year ended December 31, 2008. Staff's pro forma
3 analysis reflected issuance of a 20 year, \$415,000 amortizing loan at 7.0 percent per annum and
4 repayment of a \$47,350 short term debt.

5 16. According to Staff's analysis, for the year ended December 31, 2008, the Company
6 had a Debt Service Coverage Ratio ("DSC")¹ of 8.20 and a Times Interest Earned Ratio ("TIER")²
7 of 6.31. According to Staff's calculation of the pro forma effects of the proposed long-term debt, the
8 proposed debt would result in a DSC of 2.28 and a TIER of 1.44. Staff's pro forma analysis did not
9 include repayment of the debt with proceeds from the Arsenic Impact Hook-Up Fee Tariff.

10 17. Staff believes that the Company's proposed capital projects are appropriate and that
11 the related cost estimates are reasonable.

12 18. Staff believes that the issuance of the proposed debt financing for the purposes stated
13 in the application is within Big Park's corporate powers, is compatible with the public interest, and is
14 consistent with sound financial practices.

15 19. Staff recommended that the Commission authorize Big Park to incur an 18 to 22 year
16 amortizing loan in an amount not to exceed \$415,000 pursuant to a loan agreement with WIFA and at
17 an interest rate not to exceed that available from WIFA.

18 20. Staff recommended that any unused debt authorization granted in this proceeding
19 terminate on December 31, 2012.

20 21. Staff recommended that the Commission authorize Big Park to engage in any
21 transaction and to execute any documents necessary to effectuate the authorizations granted.

22 22. Staff recommended that Big Park be required to file with the Commission's Docket
23 Control, as a compliance item in this matter, copies of the loan documents within 60 days of the
24 execution of any financing transaction authorized herein.

25 ¹ DSC represents the number of times internally generated cash will cover required principal and interest payments on
26 short term and long term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt
obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations
and that another source of funds is needed to avoid default.

27 ² TIER represents the number of times earnings cover interest expense on short term and long term debt. A TIER greater
28 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long
term but does not mean debt obligations cannot be met in the short term.

23. Staff recommended that the Company be required to file the ADEQ Approval of Construction ("AOC") for the arsenic treatment facilities, as a compliance item in this docket, by April 29, 2011.

24. In its May 4, 2010 comments to the Staff Report, the Company requested that the deadline for filing the AOC be extended to June 30, 2011. Big Park stated that in accordance with its planned construction schedule, Big Park anticipates filing an application with ADEQ for the AOC by April 30, 2011, and that adequate time should be allowed for ADEQ to process its request.

25. Big Park's request that the deadline for filing the AOC be changed to June 30, 2011 is reasonable.

26. With the modification to the AOC filing deadline requested by Big Park, Staff's recommendations are reasonable and should be adopted.

27. Big Park currently has no outstanding compliance issues with the Commission.

CONCLUSIONS OF LAW

1. Big Park is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over Big Park and the subject matter of the application.

3. Notice of the financing application was provided in accordance with the law.

4. The financing approved herein is for lawful purposes within Big Park's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by Big Park of service as a public service corporation, and will not impair Big Park's ability to perform the service.

5. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or to income.

6. Approval of the proposed financing should not guarantee or imply any specific treatment of any capital additions for rate base or ratemaking purposes.

7. With the modification requested by Big Park, Staff's recommendations are reasonable

1 and should be adopted.

2 **ORDER**

3 IT IS THEREFORE ORDERED that Big Park Water Company, Inc. is hereby authorized to
4 incur an 18 to 22 year amortizing loan in an amount not to exceed \$415,000, pursuant to a loan
5 agreement with the Water Infrastructure Finance Authority of Arizona, at an interest rate not to
6 exceed that available from the Water Infrastructure Finance Authority of Arizona.

7 IT IS FURTHER ORDERED that any unused debt authorization granted in this proceeding
8 shall terminate on December 31, 2012.

9 IT IS FURTHER ORDERED that Big Park Water Company, Inc. is hereby authorized to
10 engage in any transaction and to execute any documents necessary to effectuate the authorization
11 granted herein.

12 IT IS FURTHER ORDERED that Big Park Water Company, Inc. shall, within 60 days after
13 the date of execution, file with Docket Control, as a compliance item in this docket, copies of all
14 executed financing documents related to the authorization granted herein.

15 IT IS FURTHER ORDERED that Big Park Water Company, Inc. shall file, by June 30, 2011,
16 as a compliance item in this docket, a copy of the Arizona Department of Environmental Quality
17 Approval of Construction for the arsenic treatment facilities.

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1 IT IS FURTHER ORDERED that that approval of the financing set forth herein does not
 2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
 3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
 7
 8 CHAIRMAN

COMMISSIONER

9
 10 COMMISSIONER

COMMISSIONER

COMMISSIONER

11
 12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 13 Executive Director of the Arizona Corporation Commission,
 14 have hereunto set my hand and caused the official seal of the
 Commission to be affixed at the Capitol, in the City of Phoenix,
 this ____ day of _____, 2010.

15
 16 _____
 17 ERNEST G. JOHNSON
 18 EXECUTIVE DIRECTOR

19
 20 DISSENT _____

21
 22
 23 DISSENT _____

SERVICE LIST FOR:

BIG PARK WATER COMPANY, INC.

DOCKET NO.:

W-01624A-10-0009

Craig Marks

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